

**WATER/MXK:jlj****PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA****WATER DIVISION****;RESOLUTION NO. W-4472****May 6, 2004****R E S O L U T I O N**

**(RES. W-4472), PEERLESS WATER COMPANY (PWC). ORDER  
AUTHORIZING A GENERAL RATE INCREASE PRODUCING  
ADDITIONAL ANNUAL REVENUE OF \$72,867 OR 8.5% IN 2003.**

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**SUMMARY**

By Draft Advice Letter, filed on June 23, 2003, PWC seeks an increase in its rates for water service to recover increased expenses of operation and earn an adequate return on its plant investment. For Test Year 2003, this resolution grants an increase in gross annual revenues of \$72,867 or 8.5%, which is estimated to provide a return on ratebase of 12.15%.

**BACKGROUND**

PWC has requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase its water rates by 11.4% or \$97,196, for Test Year 2003. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. PWC's request shows gross revenues of \$852,293 at present rates increasing to \$949,489 at proposed rates. PWC is requesting a return-on-ratebase of 12.14%.

The present rates became effective on November 5, 2003, pursuant to Advice Letter No. 94, which authorized a one-time Department of Health Services surcharge. The last general rate increase was granted on November 18, 1999, pursuant to Res. W-4171, which authorized a rate increase of \$40,527, or 4.96%, resulting in a rate of return of 12% for Test Year 1999.

PWC serves 1,808 residential and commercial customers in the city of Bellflower, Los Angeles County. PWC obtains its water supply from a series of thirteen

wells, ranging in size from 8-inches to 16-inches—all located in its service area, as well as from neighboring water utilities. Currently, only four wells are operational as groundwater contamination prevents PWC from using the rest of its wells. Water pumped from the wells is stored in large pressure tanks before entering the distribution system. PWC also purchases and resells reclaimed water to four customers. In addition, each year PWC leases the excess groundwater it is unable to pump to neighboring water utilities.

## **DISCUSSION**

The Water Division (Division) made an independent analysis of PWC's summary of earnings and issued its report in March 2004. Appendix A shows PWC's and the Division's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A also shows differences in PWC's and the Division's estimates in operating revenues, expenses, and rate base. PWC was informed of the Division's differing views of revenues, expenses and rate base and agrees with the Division's findings.

The major differences in expenses were in the (1) Transportation, (2) Professional Services, and (3) Insurance accounts. The Division estimates were made using actual billings and past-recorded expenses. The Division audited actual bills for insurance and transportation expenses to make its estimates, and relied on past recorded amounts and projected billings for professional services.

For the Transportation account, PWC no longer maintains three vehicles in its fleet. The president of PWC has assumed personal ownership of one vehicle and charges PWC a monthly fee for its use. For the Professional Services account, there was an incorrect entry for one year, which precluded the Division from making an accurate estimate. As such, the Division relied on actual test year expenditures for this account. For the Insurance account, the Division obtained and used actual insurance invoices to make its estimate.

PWC's draft advice letter requested rates that would produce a return-on-ratebase of 12.14%. The Division's Audit & Compliance Branch has conducted an analysis of the financial market changes with the last year and the high operational risks faced by Class C water companies and has determined that the appropriate range for Return on Equity (ROE) is between 11.65% and 12.65%. Since PWC's debt structure contains no debt, the rate of return range for ratebase is between 11.65% and 12.65% as well.

The summary of earnings in Appendix A shows a recommended return-on-ratebase of 12.15% at adopted rates. This return-on-ratebase is the mid-point of the return range for Class C water utilities to reflect a well run operation with excellent customer service.

Decision 92-03-093 allows Class C utilities to recover up to 65% of fixed costs in their readiness to serve charge. The rates shown in Appendix B recover 55% of the utility's fixed cost. The Division was unable to recommend the maximum ratio of 65%, as it would result in some customers receiving bills more than twice the system average increase, thereby violating long-standing Commission policy. At PWC's request, the Division recommends PWC be allowed to phase in to recover 60% and 65% of fixed costs in their readiness-to-serve charge over the next two years. PWC's current rate structure consists of three schedules: Schedule No. 1, General Metered Service, Schedule No. 4, Private Fire Protection Service, and Schedule No. 6, Reclaimed Water Service. The new rate schedules can be found in Appendix B.

At the Division's recommended rates shown in Appendix B, the bill for a typical residential customer with a 5/8-inch meter using 1500 cubic feet of water will increase from \$32.51 to \$36.07 per month, or 10.9%. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

The Division staff audited operating expenses, including salaries and contracting fees, purchased power, insurance expenses, income and other taxes. Staff verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included those expenses that were deemed reasonable and prudent.

### **NOTICE AND PUBLIC MEETING**

A notice of the proposed rate increase was mailed to each customer on or prior to September 19, 2003. The Division and PWC received two letters opposed to the rate increase. The letters also expressed concern about water pressure and quality. PWC responded promptly to the letters and shared its responses with the Division. The Division was satisfied with PWC's responses. In addition, water pressures were taken by Division staff at several locations throughout PWC's service area and were found to be within the range prescribed by General

Order No. 103. During the past year, only three complaints were filed with the Commission's Consumer Services Division against PWC, all of which have been resolved.

An informal public meeting was held Thursday, October 23, 2003, at the Simms Park Auditorium located in Bellflower. The meeting started at 7:00 PM, and adjourned at 8:15PM, with seven customers in attendance. The Division representative explained Commission procedures, as well as the purpose of the meeting. PWC's president made a presentation to explain the need for the rate increase. The rest of the meeting consisted of comments and questions by the customers. Most of the questions and comments were general in nature and dealt with PWC's revenues, expenses, investments and requested increase. Four customers indicated that the requested increase was too high. One customer indicated that he had complained to the PUC in writing regarding low water pressure and water quality problems and did not get a response back from the PUC. The customer was asked to send the Project Manager a copy of the letter, which has not yet been received.

### **COMPLIANCE**

There are no outstanding Commission orders requiring system improvements. The utility has been filing annual reports as required. According to the Department of Health Services, the utility currently meets all applicable water quality standards. PWC needs to update the following rules and form in its tariff book: Preliminary Statement; Rule 5, Special Information Required on Forms (second and third pages); Rule 7, Deposits; Rule 9, Rendering and Payment of Bills; Rule 15, Main Extensions; Rule 20, Water Conservation; Rule 21, Fire Protection; and Form 2, Customer's Deposit Receipt.

### **FINDINGS**

1. The Division's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.

3. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
4. The rate increase proposed by the Division is justified. The resulting rates are just and reasonable. PWC shall be allowed to file advice letters to phase in to recover 60% and 65% of fixed costs in their readiness-to-serve charge twelve and twenty-four months, respectively, after the effective date of this resolution.
5. PWC should update the following rules in its tariff book: Preliminary Statement, Rule 5, Special Information Required on Forms (second and third pages); Rule 7, Deposits; Rule 9, Rendering and Payment of Bills; Rule 15, Main Extensions; Rule 20, Water Conservation; Rule 21, Fire Protection; and Form 2, Customer's Deposit Receipt.
6. This is an uncontested matter subject to the public notice comment exclusion provided in the Public Utilities Code Section 311(g)(3).

**THEREFORE IT IS ORDERED THAT:**

1. Authority is granted under Public Utilities Code Section 454 to Peerless Water Company to file an advice letter incorporating the summary of earnings and the revised rate schedules attached to this resolution as Appendices A and B, respectively, and concurrently cancel its presently effective rate Schedule No. 1, General Metered Service, Schedule No. 4, Private Fire Protection Service, and Schedule No. 6, Reclaimed Water Service. The effective date of the revised schedules shall be five days after the date of filing.
2. Peerless Water Company is authorized to increase its annual revenues by \$72,867 or 8.5%, based on reasonable rates for 2003. PWC is authorized to file advice letters to phase in to recover 60% and 65% of fixed costs in their readiness-to-serve charge twelve and twenty-four months, respectively, after the effective date of this resolution.
3. Peerless Water Company shall update its Preliminary Statement, Rule 5, Special Information Required on Forms (second and third pages); Rule 7, Deposits; Rule 9, Rendering and Payment of Bills; Rule 15, Main Extensions; Rule 20, Water Conservation; Rule 21, Fire Protection; and Form 2, Customer's Deposit Receipt.

4. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on May 6, 2004; the following Commissioners voting favorably thereon:

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WILLIAM AHERN  
Executive Director

**Appendix A**  
**Peerless Water Company**

**Summary of Earnings**  
**Test Year 2003**

Item	Utility Estimated		Branch Estimated		Adopted
	Present Rates	Requested Rates	Present Rates	Requested Rates	
<u>Operating Revenue</u>					
General Metered Sales	\$ 725,127	\$ 820,821	\$ 725,127	\$ 820,821	\$ 807,901
Reclaimed Water Sales	\$ 11,901	\$ 13,403	\$ 11,901	\$ 13,403	\$ 13,334
Private Fire	\$ 240	\$ 240	\$ 240	\$ 240	\$ 259
Other Water Revenue	\$ 1,425	\$ 1,425	\$ 1,425	\$ 1,425	\$ 1,425
Other Unmetered Revenue	\$ 113,600	\$ 113,600	\$ 113,600	\$ 113,600	\$ 102,240
	\$ 852,293	\$ 949,489	\$ 852,293	\$ 949,489	\$ 925,160
<u>Operating Expenses</u>					
610 Purchased Water	\$251,652	\$251,652	\$ 251,319	\$ 251,319	\$ 251,319
615 Purchased Power	\$38,347	\$38,347	\$ 38,347	\$ 38,347	\$ 38,347
618 Other Volume Related Expenses	\$6,425	\$6,425	\$ 6,425	\$ 6,425	\$ 6,425
Ground Water Assessment	\$48,050	\$48,050	\$ 48,613	\$ 48,613	\$ 48,613
630 Employee Labor	\$123,524	\$123,524	\$ 121,346	\$ 121,346	\$ 121,346
640 Materials	\$9,470	\$9,470	\$ 9,470	\$ 9,470	\$ 9,470
650 Contract Work	\$4,291	\$4,291	\$ 4,271	\$ 4,271	\$ 4,271
Water Testing	\$6,190	\$6,190	\$ 6,190	\$ 6,190	\$ 6,190
660 Transportation Expenses	\$11,527	\$11,527	\$ 7,894	\$ 7,894	\$ 7,894
664 Other Plant Maintenance	\$210	\$210	\$ 210	\$ 210	\$ 210
670 Office Salaries	\$62,639	\$62,639	\$ 62,639	\$ 62,639	\$ 62,639
671 Management Salaries	\$98,093	\$98,093	\$ 98,093	\$ 98,093	\$ 98,093
674 Employee Benefits	\$38,666	\$38,666	\$ 36,344	\$ 36,344	\$ 36,344
676 Uncollectibles Expense	\$924	\$924	\$ 924	\$ 924	\$ 924
678 Office Services & Rentals	\$13,021	\$13,021	\$ 18,703	\$ 18,703	\$ 18,703
681 Office Supplies & Expenses	\$22,134	\$22,134	\$ 22,134	\$ 22,134	\$ 22,134
682 Professional Services	\$28,044	\$28,044	\$ 18,720	\$ 18,720	\$ 18,720
684 Insurance	\$37,940	\$37,940	\$ 37,320	\$ 37,320	\$ 37,320
688 Regulatory Commission Expense	\$0	\$0	\$ -	\$ -	\$ -
689 General Expenses	\$9,382	\$9,382	\$ 8,772	\$ 8,772	\$ 8,772
Subtotal	\$ 810,529	\$ 810,529	\$ 797,734	\$ 797,734	\$ 797,734
Depreciation	\$ 28,390	\$ 28,390	\$ 27,170	\$ 27,170	\$ 27,170
Taxes other than Income	\$ 30,328	\$ 30,328	\$ 26,871	\$ 26,871	\$ 26,871
Income Taxes	\$ 20,941	\$ 20,941	\$ 800	\$ 27,174	\$ 18,212
Interest					
Total Deductions	\$890,188	\$890,188	\$852,575	\$878,949	\$869,987
Net Revenue	-\$37,895	\$59,301	-\$282	\$70,540	\$55,173
<u>Rate Base</u>					
Average Plant	\$ 928,197	\$ 928,197	\$ 915,808	\$ 915,808	\$ 915,808
Ave. Accumulated Depreciation	\$ 574,629	\$ 574,629	\$ 588,534	\$ 588,534	\$ 588,534
Net Plant	\$ 353,568	\$ 353,568	\$ 327,274	\$ 327,274	\$ 327,274
Less Advances	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions	\$ 3,175	\$ 3,175	\$ 2,757	\$ 2,757	\$ 2,757
Plus Working Cash	\$ 135,085	\$ 135,085	\$ 126,565	\$ 126,565	\$ 126,565
Materials & Supplies	\$ 2,854	\$ 2,854	\$ 2,854	\$ 2,854	\$ 2,854
Rate Base:	\$ 488,332	\$ 488,332	\$ 453,935	\$ 453,935	\$ 453,935
Rate of Return	-7.76%	12.14%	-0.06%	15.54%	12.15%

**APPENDIX B**  
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**Peerless Water Company**

**Schedule No. 1**

**GENERAL METERED SERVICE**

**APPLICABILITY**

Applicable to all potable water metered service

**TERRITORY**

Within the City of Bellflower, Los Angeles County.

**RATES**

Quantity Rates:

All water, per 100 cu. ft.	\$ 1.691 (I)
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Service Charge:

	Per Meter
	<u>Per Month</u>
For 5/8 x 3/4-inch meter	\$ 10.70 (I)
For 3/4-inch meter	\$ 16.10
For 1-inch meter	\$ 26.80
For 1-1/2-inch meter	\$ 53.70
For 2-inch meter	\$ 85.90
For 3-inch meter	\$161.10 (I)

The Service Charge is a readiness-to-serve charge, which is applicable to all metered service and to which is added the water used computed at the Quantity Rate.

**SPECIAL CONDITIONS**

1. The established billing cycle is every two months.
2. All bills are subject to the reimbursement fee set forth in Schedule No. UF.



**APPENDIX B**

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**Peerless Water Company**

**Schedule No. 4**

**PRIVATE FIRE PROTECTION SERVICE**

**APPLICABILITY**

Applicable to all water service furnished to privately owned fire protection systems.

**TERRITORY**

Within the City of Bellflower, Los Angeles County.

**RATE**

Per Meter  
Per Month

For each inch of diameter of service connection..... \$ 5.40 (I)

**SPECIAL CONDITIONS**

1. The fire protection service and connection shall be installed by the utility or under the utility's direction. The cost for the entire fire protection installation excluding the connection at the main shall be paid for by the applicant. Such payment shall not be subject to refund.
2. The expense of maintaining the private fire protection facilities on the applicant's premises (including the vault, meter and backflow device) shall be paid for by the applicant.
3. All facilities paid for by the applicant shall be the sole property of the applicant. The utility and its duly authorized agents shall have the rights of ingress to, and egress from, the premises for all purposes in relation to said facilities.
4. The minimum diameter for fire protection service shall be one inch and the maximum diameter shall be not more than the diameter of the main to which the service is connected.
5. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a main extension from the nearest existing main of adequate capacity shall be required by the utility. Such cost shall not be subject to refund.
6. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction. All facilities are to be installed according to the utility's specifications and maintained to the utility's satisfaction. The utility may require the installation of a backflow prevention device and a standard detector type meter approved by the insurance and State Department of Health Services.

(continued)

**APPENDIX B**

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**Peerless Water Company**

**Schedule No. 6**

**RECLAIMED WATER SERVICE**

**APPLICABILITY**

Applicable to all reclaimed water service.

**TERRITORY**

Within the City of Bellflower, Los Angeles County, adjacent to the reclaimed water system owned and operated by the Central Basin Municipal Water District.

**RATES**

Quantity Rates:

For all water, per 100 cu. ft.	\$ 1.105 (I)
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Service Charge:

	Per Meter Per Month
For 5/8 x 3/4-inch meter	\$ 10.70 (I)
For 3/4-inch meter	\$ 16.10
For 1-inch meter	\$ 26.80
For 1-1/2-inch meter	\$ 53.70
For 3-inch meter	\$ 161.10 (I)

The Service Charge is a readiness-to-serve charge, which is applicable to all metered service and to which is added the water used computed at the Quantity Rate.

**SPECIAL CONDITIONS**

1. All users shall be approved to use reclaimed water by this utility and the Los Angeles County Department of Health Services.
2. By reason of circumstances beyond the control of the utility or for the protection of the public health, safety, and welfare of the users, service may be interrupted on temporary basis. Reclaimed water will be supplied only as available from the Central Basin Municipal Water District.

(continued)

**APPENDIX C**

**BILL COMPARISON**

Monthly Bill Comparison for a customer with a 5/8 -inch metered service

<u>Usage</u> <u>100 cu.ft.</u>	<u>Present</u> <u>Rates</u>	<u>Recommended</u> <u>Rates</u>	<u>Amount</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
0	8.75	10.70	1.95	22.3%
10	24.59	27.61	3.02	12.3%
15 (avg)	32.51	36.07	3.55	10.9%
20	45.18	49.59	4.41	9.8%
30	56.27	61.43	5.16	9.2%

**Appendix D**  
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**Peerless Water Company**  
**Adopted Quantities**  
**Test Year 2003**

**Purchased Power**

Southern California Edison Company  
Schedule PA-1

Total Pumped CCF	210,735
Total KWH	272,617
KWH/CCF	1.3

Composite Power Rate	\$0.1407
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<b>Property Taxes</b>	\$4,018
<b>Franchise Fees</b>	\$1,332
<b>Payroll Taxes</b>	\$21,729

**Service Connections**

<b>Meter Size</b>	<b>Number of Customers</b>
<b>Potable Water</b>	
5/8 x 3/4 inch meter	1761
3/4 inch meter	20
1 inch meter	7
1 1/2 inch meter	3
2 inch meter	11
3 inch meter	1
<b>Reclaimed Water</b>	
3/4 inch meter	1
2 inch meter	3
<b>Private Fire Protection</b>	
4 inch diameter	1

<b>Consumption</b>	330,850 ccf potable
	9,094 ccf reclaimed

**Appendix D**  
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**Peerless Water Company**  
**Adopted Quantities**  
**Test Year 2003**

**Purchased Water**

Acct.	Purchased Water - Potable			Current Charge				Service	
		Acre Feet		per AF	Sub-Total		Other Charges	Charge	Total
	Bellflower / Somerset Mutual								
610	Water Company	262.83	\$	497	\$	130,627	\$	5,040	\$ 1,800 \$ 137,467
610	Park Water Company	107.81	\$	943.51	\$	101,720			\$ 3,705 \$ 106,901
610	Park Water Company				\$	-	\$	-	\$ 179 \$ 179
610	City of Downey				\$	-	\$	-	\$ 720 \$ 720
									\$ 245,267
	Ground Water Assessment								
	Water Replenishment District of								
618	Southern California	209	\$	115	\$	24,035			\$ 24,035
		209	\$	117.60	\$	24,578			\$ 24,578
	Total:	418			\$	48,613			\$ 48,613
	Reclaimed Water								
610	Central Basin MWD	20.87	\$	290	\$	6,052		\$ -	\$ 6,052

**Tax Calculations**

Operating Revenues	\$ 925,160
Expenses	\$ 797,734
Depreciation	\$ 27,170
Taxes other than Income	\$ 26,871
Taxable Income for State	\$ 73,385
State tax	\$ 6,487
Taxable Income for Federal	\$ 66,897
Federal tax	\$ 11,724